

REVIVAL OF SPECIAL DRAWING RIGHTS?

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April 20, 2021



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“We call on the IMF to make a comprehensive proposal for a new Special Drawing Rights (SDR) general allocation of USD 650 billion to meet the long-term global need to supplement reserve assets.

A new allocation would enhance global liquidity and will help the global recovery, building on the last assessment made by the IMF in 2016.

We also invite the IMF to present proposals to enhance transparency and accountability in the use of the SDRs while preserving the reserve asset characteristic of the SDRs.

In parallel, we ask the IMF to explore options for members to channel SDRs on a voluntary basis to the benefit of vulnerable countries, without delaying the process for a new allocation.”

G20 Communique, April 7, 2021

Does the impending allocation of \$650 billion in SDR suggest a revival of the SDR as a tool of the IMF?

The allocation will come on top of \$285 billion in SDR allocations in 2009

Prior to the 2009 allocations the SDR's share of international reserves was 0.5 percent

SDR's share will increase to about 8 percent with this allocation

HOW DID WE GET TO THE 2021 ALLOCATION?

- I. What are Special Drawing Rights (SDR)?
- II. What motivated this decision?
- III. Does this decision point to a revival of the SDR as a tool for the IMF and the international monetary system?

What are SDR?

- Reserve assets
 - Issued to all IMF members proportionate to their quotas
 - Also, reserve liabilities
 - Members pay interest on their liabilities and receive interest on their assets
 - If liabilities = assets, no net interest is paid (currently 0.05 percent)
- SDR can be used to meet a country's external financing needs.
 - Members transfer SDR to other countries, for example to the United States but also to other members, for hard currency
 - Can be used without conditions on economic policies

HISTORY

- The SDR mechanism was established in 1968 to support the Bretton Woods monetary system
- SDR were first issued in 1970-1972
- August 15, 1971: United States closed its “gold window”
- C20 reform effort (1972-1974) failed to reach agreement on a new system

IN THE REFORMED INTERNATIONAL MONETARY SYSTEM

- The SDR remained in the IMF's toolkit in the 1976 amendment to the Articles of Agreement
- Article VIII, Sec. 7 obligated each member
 - “ [T]o ensure that the policies of the member shall be consistent with the objectives of promoting better international surveillance of international liquidity and making the special drawing right the principal reserve asset in the international monetary system”

More aspiration than reality

THE SDR DID NOT GO INTO HIBERNATION IMMEDIATELY

- Economic and financial turbulence in the 1970s
- Some technical changes in the SDR
- Led to an allocation of SDR 12.1 billion in 1979-1981
- Raised share of SDR to 7 percent of international reserves
- Subsequently, the SDR tool was inactive for 30 years

THE SDR OUT OF HIBERNATION

- 2007-2009 Global Financial Crisis and Global Recession
- International financing dried up
- Elevation of the G20 to the Leaders' level in November 2008
- US endorsed an allocation of \$250 billion in SDR at the London G20 meeting in April 2009
- SDR allocated by late August that year

THE SDR IN THE GLOBAL PANDEMIC

- Global pandemic and worst global recession since the Depression
- Many pressed for a large SDR allocation of \$650 billion
- The arguments against one were even weaker than in 2009
- In April 2020, the G20 and the IMFC discussed the proposal
- Proposal had almost universal support
- **Except from the United States**

BIDEN ADMINISTRATION CHANGED US POSITION

February 25 -- Janet Yellen endorsed an SDR allocation

February 26 -- G20 (chaired by Italy) endorsed an allocation

March 19 -- G7 (chaired by the United Kingdom) announced support for a \$650 billion allocation

April 2 -- Secretary Yellen notified the Congress that she would vote to support the allocation

THE SDR IS A CONTROVERSIAL TOOL

Statements in opposition

“The Democrats’ Plan to Bail Out China. Sometimes an idea gets legs in Washington that is so objectively bad, you’re almost tempted to admire it for beating the odds.”

Congressman French Hill

Wall Street Journal, February 3, 2021

“Special drawing wrongs: Issuing special drawing rights will be a sign of failure of the IMF”

The *Economist*, April 3, 2021

Statements in support

“Allocating a new round of SDRs . . . would avoid the stigma of normal IMF lending programs. . . . They have a proven record as a technological solution: in 2009, a \$250 billion issue of SDRs helped to stabilize the global economy.”

Financial Times, March 1, 2021

“[S]upport is building among the IMF’s membership for a possible SDR allocation of \$650 billion. This would benefit *all* our members, but especially the most vulnerable, by boosting reserves without adding to debt burdens. It will send a powerful message of multilateral solidarity – freeing up resources for vaccination programs and other urgent needs.”

IMF Managing Director, Kristalina Georgieva

March 30, 2021

IMPLEMENTATION

- April 7 – G20 endorsed the \$650 billion allocation
- April 8 – IMFC endorsed the allocation
- End-April – Managing Director's proposal will be sent to IMF Governors for their vote
- Congress will not vote to prevent a US vote for the proposal
- Late July or early August – allocation of SDR

POSSIBLE FURTHER EVOLUTION

- A new five-year basic period starts on January 1, 2022
- Another \$650 allocation would then be possible without US Congress approval
- The next (16th) review of IMF quotas (and the quota formula) is to be completed by the end of 2023
 - A decision to increase and redistribute quotas is likely
 - Less predictable is prompt approval by the US Congress
- Another SDR allocation could be part of that package
- How the system responds to the 2021 allocation will be a crucial determinant of the SDR's future

THANK YOU